

AUDIT REFERRAL # 12-10

November 07, 2012

MEMORANDUM

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Subject: Washington State Republican Party Committee (A10-02)-
Referral Matters

On November 2, 2012 the Commission approved the Final Audit Report of the Commission on the Washington State Republican Party Committee (A10-02). This report includes the following matters that are referable:

Misstatement of Financial Activity
Misstatement of Financial Activity – Levin Fund

All work papers and related documentation are available for review in the Audit Division. Should you have any questions regarding this matter, please contact Lezhi Irving or Marty Kuest at 694-1200.

Attachments:

Finding 1. Misstatement of Financial Activity

Finding 2. Misstatement of Financial Activity – Levin Fund

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Finding 1. Misstatement of Financial Activity

Summary

A comparison of WSRP's reported activity with bank records revealed a misstatement of its beginning cash-on-hand and receipts for 2009 and a misstatement of receipts, disbursements and ending cash-on-hand for 2010. For 2009, WSRP understated beginning cash-on-hand by \$30,321 and overstated receipts by \$45,641. In 2010, WSRP understated receipts by \$697,155 and disbursements by \$1,062,382 and it overstated ending cash-on-hand by \$362,753. In response to the Interim Audit Report, WSRP filed amended reports that materially corrected the misstatements.

The Commission approved a finding that WSRP misstated financial activity for 2009 and 2010.

Legal Standard

Contents of Reports. Each report must disclose:

- the amount of cash-on-hand at the beginning and end of the reporting period;
- the total amount of receipts for the reporting period and for the calendar year;
- the total amount of disbursements for the reporting period and for the calendar year; and
- certain transactions that require itemization on Schedule A (Itemized Receipts) or Schedule B (Itemized Disbursements). 2 U.S.C. §434(b)(1), (2), (3), (4) and (5).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reconciled reported activity with bank records for 2009 and 2010. It determined that WSRP misstated the beginning cash balance and receipts for 2009 and receipts, disbursements and ending cash balance for 2010. The following charts outline the discrepancies in the cash balances, receipts and disbursements for each year. The succeeding paragraphs address the reasons for the misstatements.

2009 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2009	\$124,951	\$155,272	\$30,321 Understated
Receipts	\$852,256	\$806,615	\$45,641 Overstated
Disbursements	\$970,577	\$952,783	\$17,794 Overstated
Ending Cash Balance @ December 31, 2009	\$6,630	\$9,104	\$2,474 Understated

WSRP understated the beginning cash-on-hand by \$30,321. WSRP did not explain the discrepancy, but it likely resulted from prior period discrepancies.

The overstatement of receipts resulted from the following factors.

• Reported transfers from Levin (\$32,499) and non-federal accounts (\$30,691) that were not supported by bank deposits or checks/debits by the transferring accounts	\$ (63,190)
• Transfers from affiliated committee and non-federal account that were not reported	15,097
• Unexplained differences	<u>2,452</u>
Net Overstatement of Receipts	<u>\$ (45,641)</u>

2010 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2010	\$6,630	\$9,104	\$2,474 Understated
Receipts	\$2,275,638	\$2,972,793	\$697,155 Understated
Disbursements	\$1,925,680	\$2,988,062	\$1,062,382 Understated
Ending Cash Balance @ December 31, 2010	\$356,588	-\$6,165	\$362,753 Overstated

The understatement of receipts resulted from the following factors.

• Transfer from Levin account not reported	\$ 3,000
• Transfers from non-federal accounts not reported	109,078
• Transfers from political committees not reported	487,215
• Contributions from individuals not reported	93,337
• In-kind contributions not reported as receipts	10,976
• Reported transfer not supported by bank deposits	(11,675)
• Reported contribution not supported by bank deposit	(5,000)
• Unexplained differences	<u>10,224</u>
Net Understatement of Receipts	<u>\$697,155</u>

The understatement of disbursements resulted from the following factors.

• Payroll expenditures not reported	\$ 33,457
• Operating Expenditures not reported	1,023,213
• Transfers to political committees not reported	25,000
• Contributions to other committees not reported	10,000
• Reported disbursements not supported by checks or debits	(24,185)
• Unexplained differences	<u>(5,103)</u>
Net Understatement of Disbursements	<u>\$1,062,382</u>

The majority of the \$1,023,213 in operating expenditures not reported included costs associated with mail pieces provided by nine vendors, totaling \$882,966.

The \$362,753 overstatement of the ending cash-on-hand resulted from the misstatements described above.

B. Interim Audit Report & Audit Division Recommendation

Audit staff discussed this matter with WSRP representatives at the exit conference. WSRP representatives made no comment on this matter.

The Interim Audit Report recommended that WSRP amend its disclosure reports to correct the misstatements for both 2009 and 2010, and amend its most recently filed report to correct the cash-on-hand balance with an explanation that the change resulted from a prior period audit adjustment.

Further, the Audit staff recommended that WSRP reconcile the cash balance of its most recent report to identify any subsequent discrepancies that might affect the adjustment recommended by the Audit staff.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSRP filed amended reports that materially corrected the misstatements.

In addition, a WSRP representative explained that Audit staff should have treated a \$43,921 disbursement from a federal account and a transfer of an identical amount from the non-federal account to the federal account-- both of which were included as unreported in the Interim Audit Report -- as reversing transactions. These transactions involved a payment mistakenly made from a federal account for non-federal activity and the subsequent reimbursement from the non-federal account. WSRP included both transactions in the amended reports.

D. Draft Final Audit Report

The Draft Final Audit Report noted that, in response to the Interim Audit Report, WSRP filed amended reports that materially corrected the misstatements as recommended by the Audit staff.

E. Committee Response to the Draft Final Audit Report

WSRP requested an audit hearing for the Commission to consider whether an unreported disbursement of \$43,921 made on August 5, 2010, and a corresponding unreported receipt in the same amount on August 12, 2010, should have been included in the misstatement total.

F. Audit Hearing

During the audit hearing, counsel for WSRP reiterated that the unreported disbursement of \$43,921 made on August 5, 2010, was a payment for non-federal activity that WSRP made in error from the federal account, and the unreported receipt in the same amount on August 12, 2010, was the subsequent reimbursement from the non-federal account. Both transactions occurred in the same reporting period. As a consequence, WSRP stated its belief that these offsetting transactions were obvious errors and that it should not have been required to include these transactions on its disclosure report.

Commission Conclusion

On September 13, 2012, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff (1) maintained that the reversing transactions questioned by WSRP during the audit hearing should be reported and included as part of the WSRP activity that was misstated for 2010, and (2) recommended that the Commission find WSRP misstated its financial activity in 2009 and 2010.

The Commission approved the Audit staff's recommendation.

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Finding 2. Misstatement of Financial Activity – Levin Fund

Summary

A comparison of WSRP's reported Levin activity with bank records revealed a misstatement of its beginning cash-on-hand and disbursements for 2009 and a misstatement of disbursements and ending cash-on-hand for 2010. For 2009, WSRP overstated beginning cash-on-hand by \$32,499 and overstated disbursements by \$32,499. In 2010, WSRP understated disbursements by \$15,000 and overstated ending cash-on-hand by \$12,500. In response to the Interim Audit Report, WSRP filed amended reports that corrected the misstatements.

The Commission approved a finding that WSRP misstated Levin financial activity for 2009 and 2010.

Legal Standard

Contents of Levin Reports. Each report must disclose:

- the amount of cash-on-hand for Levin funds at the beginning and end of the reporting period;
- the total amount of Levin fund receipts and disbursements (including allocation transfers) for the reporting period and for the calendar year; and
- certain transactions that require itemization on Schedule L-A (Itemized Receipts of Levin Funds) or Schedule L-B (Itemized Disbursements of Levin Funds). 11 CFR §300.36 (b)(2)(B).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reconciled reported Levin activity with bank records for 2009 and 2010. It determined that WSRP misstated beginning cash-on-hand and disbursements for 2009 and disbursements and ending cash-on-hand for 2010. The following charts outline the discrepancies for the cash balances, receipts, and disbursements for each year. The succeeding paragraphs address the reasons for the misstatements.

2009 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2009	\$49,500	\$17,001	\$32,499 Overstated
Receipts	\$0	\$0	\$0
Disbursements	\$49,499	\$17,000	\$32,499 Overstated
Ending Cash Balance @ December 31, 2009	\$1	\$1	\$0

WSRP overstated the beginning cash balance by \$32,499. WSRP did not explain the discrepancy, but it likely resulted from prior period discrepancies.

The overstatement of disbursements resulted when WSRP erroneously reported transfers of \$32,499 to the federal account. WSRP also identified these transactions as an adjustment to the federal bank reconciliation. (See Finding 1, page 5.) These transfers appear to have been reported to correct the overstatement of cash-on-hand as of January 1, 2009.

2010 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2010	\$1	\$1	\$0
Receipts	\$12,500	\$15,000	\$2,500 Understated
Disbursements	\$0	\$15,000	\$15,000 Understated
Ending Cash Balance @ December 31, 2010	\$12,501	\$1	\$12,500 Overstated

WSRP did not report a \$15,000 transfer it made to the federal account. The \$12,500 overstatement of the ending cash balance resulted from the misstated receipts and disbursements noted above.

B. Interim Audit Report & Audit Division Recommendation

Audit staff discussed this matter with WSRP representatives at the exit conference. WSRP representatives made no comment on this matter.

The Interim Audit Report recommended that WSRP amend its disclosure reports to correct the misstatements for both 2009 and 2010.¹

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSRP filed amended reports that corrected the misstatements.

D. Draft Final Audit Report

The Draft Final Audit Report noted that, in response to the Interim Audit Report, WSRP filed amended reports that corrected the misstatements as recommended by the Audit staff.

E. Committee Response to the Draft Final Audit Report

WSRP made no comment on this finding.

Commission Conclusion

On September 13, 2012, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that WSRP misstated its Levin fund financial activity for calendar years 2009 and 2010.

The Commission approved the Audit staff's recommendation,

¹ WSRP has not reported any Levin activity for calendar year 2011.